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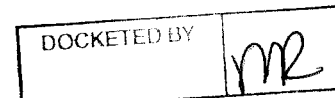
2007 FEB 26 P 1:31

AZ CORP COMMISSION
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED

FEB 26 2007

February 23, 2007



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AT&T PROPRIETARY INFORMATION REDACTED

Commissioner Kris Mayes
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007-2996

Docket Nos.: T-02428A-06-0203
T-03016A-06-0203
T-03116A-06-0203
T-03287A-06-0203
T-03346A-06-0203

Re: AT&T Employee Surplus Condition
Docket No. T-02428A-06-0203

Dear Commissioner Mayes,

In follow-up to Wayne Watts' letter to you of February 13, I want to provide you with the information that you requested in your letter of February 9, 2007. Also, I understand you have concerns about whether the surplus is related to the BellSouth and AT&T merger that occurred in December and if there are going to be any future layoffs of employees. This letter responds to those concerns as well as the specific questions that you asked in your letter.

The employee surplus is not the result of the AT&T and BellSouth merger. None of the surplus employees are BellSouth employees. None of the employees were performing work for BellSouth's operations. And, none of the work load of the three affected employee groups is being shifted to pre-merger BellSouth locations. The announced surplus can be attributed to a number of other factors including: (1) the 2004 pre-merger AT&T decision to stop aggressively marketing local and stand-alone long distance services to residential and small business customers; (2) the reduced work loads of the impacted employee groups as the legacy AT&T customer base continues to decline; (3) AT&T consolidating its operations of similar business activities into fewer, larger centers in order to improve efficiencies and take advantage of scale; and, (4) the normal ebbs and flows of the marketplace as customers, for example, move away from traditional wireline services to other alternatives such as wireless and internet-based services.

With regard to the specific information that you requested in your letter, AT&T provides the following data regarding the announced employee surplus.

**1) Changed Circumstances Necessitating the January 22, 2007,
Surplus Declaration**

The force reduction involves multiple functions including bill print operations, billing integrity management (sometimes referred to as "credit & collections"), and local service provisioning for legacy AT&T. A decline in legacy AT&T's customer base and work volume enabled AT&T to consolidate the remaining work into larger centers that already perform the same or similar functions.

The bill print operations will be transferred to a legacy SBC bill print center in West Sacramento, California. The billing integrity work will be consolidated into a legacy AT&T center in Orlando, Florida, and a legacy SBC center in Ft. Worth, Texas. The local service provisioning work will be consolidated into a legacy AT&T location in Sacramento, California. As previously communicated, all non-management employees were offered positions in their respective new locations. Most impacted management employees have secured positions with AT&T in Arizona and other opportunities are being pursued.

2) Number of AT&T Employees in Arizona Post-Surplus and in 1999¹

At this point, it is uncertain how many of the 123 employees announced on January 22 as being subject to the surplus condition will no longer have positions with AT&T after the March 23 effective date. Some of the employees will secure other positions with AT&T in Arizona. At the current time, subsidiaries of AT&T Inc. have ***XXX*** employees in Arizona which includes the 123 employees who received surplus notification.² In 1999, legacy AT&T Corp. had ***XXX*** employees in Arizona. However, by September 2005, prior to the AT&T/SBC merger, the number of legacy AT&T employees had dropped to ***XXX*** employees.³

¹ The specific employee numbers that you requested are Confidential and have been redacted. An unredacted version of this letter is being supplied confidentially to each Commissioner and Commission counsel pursuant to the Protective Agreement between Staff and AT&T dated June 22, 2006.

² The current employee number provided includes ***XXX*** employees of AT&T Mobility f/k/a Cingular Wireless and ***XXX*** employees of legacy AT&T on Extended Compensation Option ("ECO") status. ECO is an option available to legacy AT&T surplus bargained-for employees. ECO employees have been declared surplus, but remain in active status and keep their benefits until they have received all their termination pay in weekly installments. ECO employees must be available for temporary assignments.

³ The September 2005 employee count includes ***XXX*** employees who were on ECO status at the time.

3) Possible Future Layoffs and Jobs Associated with Technical Advances Listed in Consumer Benefits Report

Except for the continued phase out in 2007 of the Bill Print Center as referenced in Mr. Grant's letter of January 22, AT&T has no current plans for further job reductions in Arizona. While the Consumer Benefits Report described numerous new technologically-advanced service offerings for customers in Arizona, these offerings will not result in a significant number of new jobs in the state. Their deployment is being handled by existing work groups in other states and by existing Arizona AT&T employees.⁴

4) AT&T's Plans for Its Present Work Locations Facilities

At the present time, AT&T has no plans to close AT&T's existing Phoenix facilities, although this could change as conditions warrant. The facility at 1355 W. University Drive in Mesa is AT&T's largest Arizona employee location and houses a variety of departments, including legacy SBC's business and consumer sales and marketing organizations, and legacy SBC Information Technology group. The facility at 211 W. Monroe in Phoenix houses AT&T Mobility and AT&T Global Network Operations groups.

5) AT&T's Network Plans

AT&T has approximately 1,600 miles of long distance fiber optic cable in Arizona and prides itself in maintaining its network. AT&T subscribes to the state's One Call agencies in order to receive notification of work activities near its fiber optic cables. Technicians respond to the notifications and provide the level of protection required to prevent cable damage.

AT&T utilizes the best electronic locating system to positively identify its cables, which provides a very high degree of accuracy in identifying AT&T's underground network cabling. In fact, from 1999 to the present, AT&T has had only three cable cuts and was quickly able to respond and repair its facilities. There are no plans or need at this time to upgrade AT&T's long distance fiber optic cables. The latest notice of layoffs will not affect AT&T's ability to maintain its long distance fiber optic network in Arizona.

In conclusion, while I cannot guarantee that there will be no further job reductions in Arizona regarding some segments of our business, I want to assure you that AT&T

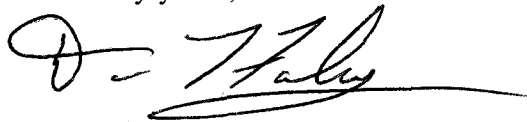
⁴ We do anticipate additional job growth in Arizona at AT&T Mobility reflecting the growing demand for wireless services.

Commissioner Kris Mayes
February 23, 2007
Page 4 of 4

values its employees and strives to soften the hardships caused by an employee surplus condition. For employees that are subject to surplus, they are able to apply for other open positions within AT&T, including positions available in Arizona. All non-management employees are able to follow their work to a new work location and, if they do so, they are entitled to a one-time cash payment to help defray the costs of the relocation. For those employees who elect not to follow their work or who for personal reasons are unable to make the move, they receive a severance payment based on years of service and current salary. And, employees who are in a surplus or office closing situation can take advantage of the career transition services provided by the AT&T Resources Center.

If you would like to discuss this information further, please feel free to contact me directly.

Sincerely yours,



Dan Foley

Original of Public Version and 23 copies filed
with Docket Control on the 26th day of February, 2007.

Confidential Version Delivered to each Commissioner
and Maureen Scott, Legal Division, on the 26th day
of February, 2007.